CO-OPERATIVE BUSINESS STRATEGIES: SOME ASPECTS

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1: Forms of alliances

'Make, buy or ally' is the key to business growth. Making or doing everything from scratch on its own brings about organic growth of a business while acquisitive growth through purchase of already existing businesses leads to quicker results. However, synergy which is supposed to result from the coming together of two separate organisations often proves illusory. Acquisition also means buying the whole set up while actually only a part of it may be of profit to the acquirer. So growth through alliances seems promising. If alliances fail to deliver value, they can be terminated more easily. They denote closer relations as compared to arms- length spot transactions in the market but they do not go forward the whole way. Alliance partners share risks and rewards but in a non- permanent manner. Often there is a time limit within which the relationship will be concluded. Even with the alliance, partners are free to carry on their other business independently. So alliances prove to be flexible and are therefore popular.

Michael Porter once remarked, “Alliances as a broad- based strategy will only ensure a company's mediocrity, not its international leadership.” Still cooperation among businesses is continually on the rise. Everyday happenings reported by the financial press are all about strategic alliances, joint ventures among businesses and their acquisition of equity stakes in other businesses. It would appear that benefits of cooperation outweigh those of pursuing either organic growth or acquisitive growth. In our present- day interconnected, global world, cooperation has no reason to be confined to national boundaries.

A brief recount of benefits of cooperation goes as below:

1. Risk reduction through dispersion of fixed costs, lower capital investment, faster entry into new markets and diversification of product portfolio
2. Economies of scale and rationalisation
3. Technological synergy and exchange of patents and territories
4. Co-opting or blocking competition
5. Help for vertical integration through providing access to resources, distribution channels, regulatory permits, establishment of links with major buyers etc.
6. Facilitating international expansion and
7. Overcoming trade and investment barriers in a particular country.

Forms of cooperation among businesses are of different types.

Cooperation among businesses

- Agreements
- Networks
- Strategic Alliances (SA)
- Acquisitions of minority stakes

Differences among these types are summarised in the following table.

Different shades of cooperation

Feature	Agreements	Networks	SA	Acquisitions
Focus	Transaction bound	Relationship bound	Relationship bound	Relationship bound
Time Span	Short though longer than spot transactions	Long	Medium / long	Permanent
Sharing of risk and reward	Little	Little or more	More	More or total
Sharing of control	Nove	Some	More	More

Since business needs evolve continuously, within each of the above types of cooperation, there is a tendency towards evolution of more involved forms for greater sharing of risk among partners.

2: Choice of form of alliance

Agreements: agreements and contracts pertaining to technology transfer, subcontracting, distribution, marketing etc. are legion among businesses. In exploring oil fields and extraction of crude petroleum and natural gas from successful finds, agreements are often signed by governments with expert international firms. Among the usual purchase – supply contracts also more complicated forms such as buy- back, quantity flexibility, revenue sharing and sales rebate contracts exist to share risks and rewards.

Networks: they are a loose association among usually more than two businesses. As time passes, a network may take a more structured form. Networks are always changing and nebulous. They exist basically to share information and to access social capital. Community and caste links have been important in business networks in India. Over time, a dominated network with a centre of authority, business groups and even networks might emerge from networks.

Strategic alliances (SA): they take the form of bilateral agreements and joint ventures (JVs). Bilateral agreements call for greater cooperation and commitment from partners as compared to (unilateral) agreements mentioned above. If greater commitment is desired then the partners buy equity and set up a new undertaking. That is the JV. It may be between local partners or between partners from different countries.

Cross-border JVs are more common. Selection of partners, drafting the JV agreement, monitoring performance and exercising control are crucial aspects which determine the outcome of any JV. In spite of the initial high hopes, most JVs last for no more than 7 years and many for just about 3 years. In the second half of 20^{th} century, all developing country governments insisted on JVs as the entry mode for MNCs. They expected considerable benefits from these JVs in the form of technology transfer, employment generation, vendor development and exports. These expectations have been belied and today wholly owned subsidiaries are insisted upon by MNCs for entering new markets.

Acquisitions: for making their cooperation permanent, two partners fuse their existence together. Either a minority or a majority stake is bought in the partner business and earlier ties are concretised.

Subsidiary companies: an MNC finds it most convenient to open a fully owned subsidiary company in a new market. It can then enjoy full control of operations and also integrate it flexibly in its global design of activities, tax planning etc. In a JV it faces constraints on these scores because the local partner's ideas are usually different.

Some rules of thumb are given below for choosing an appropriate form of alliance.

1. A foreign company should opt for a JV when its calculations of possible future volume and profit point unambiguously to setting up a subsidiary company but laws of the host country make it difficult to set up one or an appropriate partner cannot be found.
2. If there is no legal pressure for setting up a JV and a business needs a partner because it lacks capabilities, then an acquisition should be considered by it.
3. When a foreign company wants to reinvest profits and not fritter them away in dividend payout, it should opt for a wholly owned subsidiary.

3: Practical problems in running a JV

Consider the following case which brings out the importance of serious, genuine problems that arise in a JV. It is no wonder that more than half of the JVs fail and that even the successful ones are short-lived. The French car manufacturing business Renault and Mahindra & Mahindra (M & M) of India set up a JV in 2005 to manufacture a particular brand of a car viz. Logan of Renault which had been very successful in Brazil and Europe. Under the JV agreement, a separate company – Mahindra Renault Pvt. Ltd. (MRPL) – was set up with 51% equity from M & M and 49% from Renault.

MRPL started selling Logan since 2007. The initial response of the market was very positive and then sales started declining. In 2007 MRPL sold 44000 units and next year, the figure was just 5332. This happened against the backdrop of a rapidly growing Indian car market. Naturally there was frustration and tension between the two partners. The JV lost about Rs. 490 crore in the year 2008- '09.

Matters reached a flash point when Renault decided in February 2010 to set up an independent production and sales facility for its new models. M & M was bypassed. It felt humiliated and decided to end the JV by buying Renault out.

According to M & M, the problem lay with the car exterior and size. Customers did not like its edgy styling. Logan was treated as a sedan model, not a small car and the latter enjoy huge demand in India. Medium cars attract an excise duty of 22% as against only 10% duty levied on small cars. Thus Logan was treated as a medium category brand with medium price. So M & M requested Renault to reduce the length of the car and its engine capacity so that it could fit in the small car segment. Renault was reluctant to make this change in only one market.

After the dissolution of the JV, M &M is going to introduce these changes in the car. Till the end of 2010, the car will sport the Renault logo which will then be replaced by M & M logo. Within a week of the dissolution, M & M reduced the price of Logan by up to Rs. 80,000 per unit in both its petrol and diesel varieties. In the automobile industry of India, M & M is an established, respected company. It enjoys the largest market share in utility vehicles segment. In passenger car segment, it has no model save Logan at present and it must make it successful. It will be interesting to observe Logan's future progress.

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